

**CITY OF SAN JOSE**  
**2006-2010 ADOPTED CAPITAL IMPROVEMENT PROGRAM**

**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES**

The 2006-2010 Adopted Capital Improvement Program (CIP) derives its funding from a variety of sources. The following table provides a listing of those sources grouped by major category, along with a comparison with the 2005-2009 Adopted CIP.

<u>Source</u>	<u>2005-2009 CIP</u> <u>(\$ millions)</u>	<u>2006-2010 CIP</u> <u>(\$ millions)</u>	<u>Difference</u> <u>(\$ millions)</u>
Beginning Fund Balances	\$ 630.3	\$ 703.3	\$ 73.0
Sale of Bonds	431.7	266.5	(165.2)
Other Agencies/Grants	106.8	117.4	10.6
Fees and Charges	202.6	222.0	19.4
Transfers	1,909.3	536.2	(1,373.1)
General Fund	39.4	32.3	(7.1)
Interest Income	32.6	26.4	(6.2)
Other Revenue	156.4	190.9	34.5
<b>TOTAL</b>	<b>\$ 3,509.1</b>	<b>\$ 2,095.0</b>	<b>\$ (1,414.1)</b>

**Beginning Fund Balances**

The 2006-2010 Beginning Fund Balances of \$703.3 million are higher than the 2005-2009 CIP level by \$73.0 million (11.6%). Three capital programs generate over two-thirds of that 2005-2006 Beginning Fund Balance figure. The funds in the Airport Capital Program, which is the largest program in the CIP, account for over one-third (\$270.5 million) of the Beginning Fund Balance. Additionally, the Beginning Fund Balance in the Parks and Community Facilities Development Capital Program (\$151.8 million) and Public Safety Capital Program (\$72.0 million) represents over one-third of the Beginning Fund Balance total. The significant number of capital improvements programmed over the next five-years in these programs should result in a significant reduction to the fund balance total.

**Sale of Bonds**

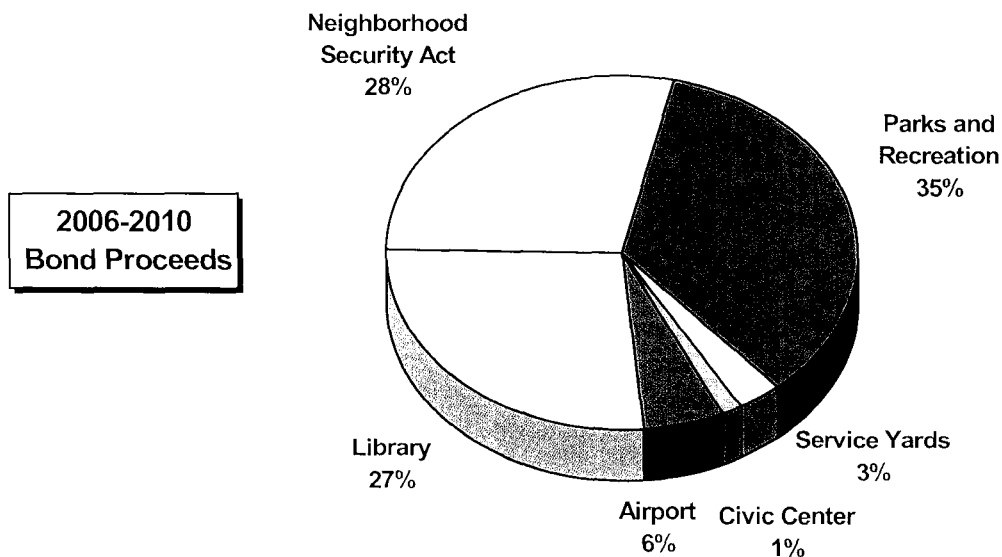
Total bond proceeds expected over the next five-year period of \$266.5 million reflect a \$165.2 million (38.3%) decrease compared to the estimates included in the last CIP. This decrease primarily reflects a drop in General Obligation Bond proceeds as these bond projects are being completed and a significant reduction in bond proceeds associated with the new City Hall as that project nears completion. The 2006-2010 Adopted CIP includes the scheduled sale of the remaining General Obligation Bonds (\$75.4 million) associated with the Neighborhood Security Act Bond Measure that was approved by voters in March 2002. This bond measure authorized the City to issue General Obligation Bonds in an amount not to exceed \$159 million to fund both Police and Fire Department capital improvements. In this Adopted CIP, this category also reflects the sale of General Obligation Bond financing for parks and recreation projects (\$93.6 million) and library projects (\$70.8 million), the sale of bonds to fund Phase II of the Central Service Yard (\$8.0 million), and the completion of the new Civic Center (\$3.5 million).

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**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES (CONT'D.)**

**Sale of Bonds (Cont'd.)**

In the Airport Capital Program, bond proceeds total \$15.2 million. It should be noted, however, that the sizeable amount of bond proceeds associated with the Airport Capital Program are not reflected in this category because they are technically considered a Transfer from the Airport Fiscal Agent Fund to the Airport Revenue Bond Improvement Fund. The graph below displays the anticipated bond sales by capital program area.



**Other Agencies/Grants**

This category totaling \$117.4 million is comprised of federal (\$33.4 million) and state (\$34.7 million) grants, contributions from other agencies that use the Water Pollution Control Plant (\$34.7 million) and the Sanitary Sewer System (\$3.8 million), the Valley Transportation Authority (\$5.0 million), the Redevelopment Agency (\$4.6 million), and other agencies (\$1.2 million). On an overall basis, estimated revenues from these sources reflect an increase of \$10.6 million (9.9%) from the 2005-2009 Adopted Budget.

The majority of the federal grants are related to Airport projects. The estimates for the Airport-related federal funding, totaling \$27.1 million, reflect a slight increase of \$2.2 million (8.8%) compared to the prior CIP. In the state grant category, it is anticipated that \$25.7 million will support traffic projects and \$8.9 million will support parks projects. The contributions from the County of Santa Clara and the Valley Transportation Authority will be used to support traffic and parks projects.

**Fees and Charges**

The 2006-2010 Adopted CIP includes an estimate of \$222.0 million from the Fees and Charges category, an increase of \$19.4 million from the level included in the 2005-2009 Adopted CIP. On an overall basis, the revenue estimates assume moderate increases (9.6%) based on actual performance in the individual categories.

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**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES (CONT'D.)**

**Fees and Charges (Cont'd.)**

The following table compares the components of the 2006-2010 Adopted Fees and Charges estimates with those included in the 2005-2009 Adopted CIP.

<u>Source</u>	<u>2005-2009 CIP</u> <u>(\$ millions)</u>	<u>2006-2010 CIP</u> <u>(\$ millions)</u>	<u>Difference</u> <u>(\$ millions)</u>
Construction and Conveyance Tax	\$ 82.0	\$ 94.0	\$ 12.0
Construction Excise Tax	66.1	69.0	2.9
Building and Structure Construction Tax	41.2	44.8	3.6
Sanitary Sewer Connection Fees	5.0	5.6	0.6
Water Utility Fees	4.4	4.3	(0.1)
Storm Drainage Fees	2.3	2.6	0.3
Residential Construction Tax	0.9	1.0	0.1
Major Water Facilities Fees	0.7	0.7	0.0
<b>TOTAL</b>	<b>\$ 202.6</b>	<b>\$ 222.0</b>	<b>\$ 19.4</b>

Following is a discussion of the revenue estimates for the three largest sources within the Fees and Charges category.

Construction and Conveyance Tax Revenues

The Construction Tax portion of the Construction and Conveyance Tax category is levied on most types of construction. For residential construction, the tax rate is based upon the number of units constructed and ranges from \$75 per unit located in a building containing at least twenty dwelling units to \$150 for a single-family residence. The commercial and industrial rate is eight cents per square foot of floor area constructed. The Construction Tax accounts for approximately 2% of the total Construction and Conveyance Taxes collected.

The Conveyance Tax portion of the Construction and Conveyance Tax category is imposed upon each transfer of real property where the value of the property exceeds \$100. The tax is imposed at a rate of \$1.65 for each \$500 of the value of the property. The Conveyance Tax accounts for approximately 98% of the total Construction and Conveyance Taxes collected.

The five-year projection for Construction and Conveyance Tax revenues totals \$94 million, which is a \$12.0 million (14.6%) increase from the \$82 million estimated in the 2005-2009 Adopted CIP. The Construction and Conveyance Tax revenue projections are based upon: 1) a review of prior year collection trends; 2) a review of year-to-date residential sales activity in San José; 3) a review of year-to-date tax receipts; and 4) projections of the future strength of the San José real estate market. On an annual basis, collections are projected to fall to \$20 million in 2005-2006 and 2006-2007, (from the current year revenue estimate of \$38 million) and level off at \$18 million for each of the remaining

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**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES (CONT'D.)**

**Fees and Charges (Cont'd.)**

Construction and Conveyance Tax Revenues (Cont'd.)

years of the CIP. After experiencing declines in this category for two years, collections reached record levels in 2003-2004 at \$38.2 million that were expected to continue in 2004-2005. While collections have been extremely strong in the last two years, it is assumed that a significant downward adjustment in housing activity is possible given the current economic conditions and potential changes in interest rates. The 2006-2010 CIP is built on this conservative scenario with collections anticipated to drop to \$20.0 million in 2005-2006 and 2006-2007 and \$18.0 million in the out years of the CIP to reflect what is believed to be a more sustainable level of housing resale activity and is based on the assumption that adjustments will occur in the housing market.

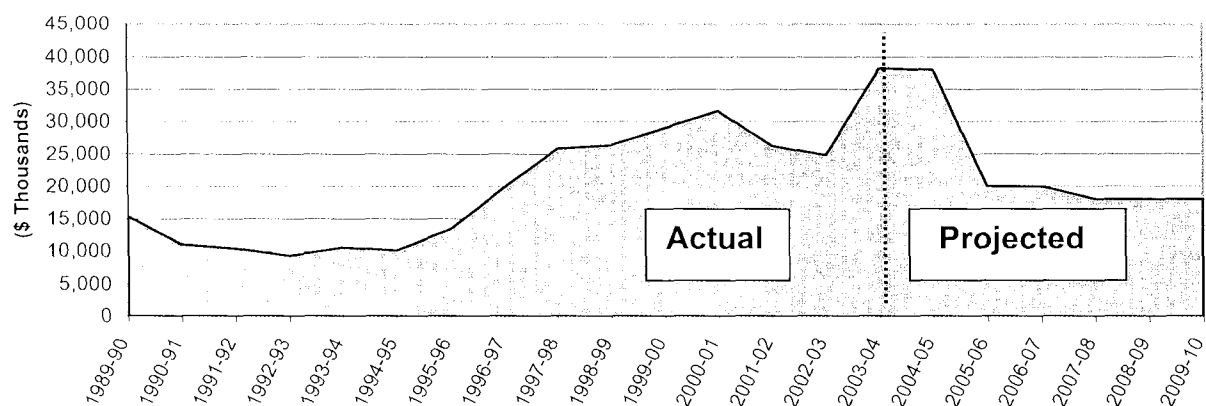
Based on the Council-approved distribution formula, these funds are allocated as follows in the 2006-2010 Adopted CIP.

**Construction and Conveyance Tax Distribution**

Program	Dist.	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	5-Year Total
Parks	64.00%	12,800,000	12,800,000	11,520,000	11,520,000	11,520,000	60,160,000
Park Yards	1.20%	240,000	240,000	216,000	216,000	216,000	1,128,000
Fire	8.40%	1,680,000	1,680,000	1,512,000	1,512,000	1,512,000	7,896,000
Library	14.22%	2,844,000	2,844,000	2,560,000	2,560,000	2,560,000	13,368,000
Service Yards	8.78%	1,756,000	1,756,000	1,580,000	1,580,000	1,580,000	8,252,000
Communications	3.40%	680,000	680,000	612,000	612,000	612,000	3,196,000
<b>Total</b>	<b>100.00%</b>	<b>20,000,000</b>	<b>20,000,000</b>	<b>18,000,000</b>	<b>18,000,000</b>	<b>18,000,000</b>	<b>94,000,000</b>

A graph of the actual and projected Construction and Conveyance Tax revenues is provided below. It illustrates the tremendous growth in this category, and the anticipated return to a more sustainable level of activity.

**Construction and Conveyance Tax Revenues**



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**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES (CONT'D.)**

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**Fees and Charges (Cont'd.)**

Construction Excise Tax

The Construction Excise Tax is levied upon construction, alteration, repair or improvement of any building or structure that is for residential or commercial purposes or is associated with a mobile home. The tax may be used for any "usual current expense" of the City; however, the City Council has historically utilized the majority of these funds for traffic improvements. Based upon the construction projections provided by the Planning, Building and Code Enforcement Department, the revenue estimates included in the 2006-2010 Adopted CIP total \$69.0 million. This represents an increase of \$2.9 million from the total amount estimated in the 2005-2009 Adopted CIP.

While the 2006-2010 revenue estimate for this tax reflects a moderate increase (4.4%) from the estimates included in the 2005-2009 Adopted CIP, collections in this category have, as projected, fallen significantly from the actual collection levels experienced in recent years. For instance, the estimated receipts of \$13.4 million in 2005-2006 reflect a drop of 35.3% from the peak of \$20.7 million in 2000-2001. Fortunately, the prior three CIPs were built on the assumption that receipts would fall significantly from the extremely high levels experienced over the past few years. Given these conservative estimates, very few programmed projects have subsequently had to be cancelled or deferred to accommodate the lower actual revenue levels.

Building and Structure Construction Tax

The Building and Structure Tax is levied on residential, commercial, and industrial development. The tax is collected based on building valuation. The use of funds is restricted to capital improvements on major arterial and collector streets, including bridges, culverts, and lighting as well as traffic control systems that increase traffic volume.

Based on construction activity forecasts supplied by the Planning, Building, and Code Enforcement Department, the five-year projection for the Building and Structure Construction Tax totals \$44.8 million, with annual proceeds ranging from \$8.7 million to \$9.3 million. This is an increase of approximately \$3.6 million (8.7%) from the estimates included in the 2005-2009 Adopted CIP. While collections are expected to improve somewhat over the 5-year period, the projected activity levels are still well below the peak. For instance, the 2005-2006 revenue estimate of \$8.7 million is roughly half the actual receipts in 2000-2001 of \$17.4 million.

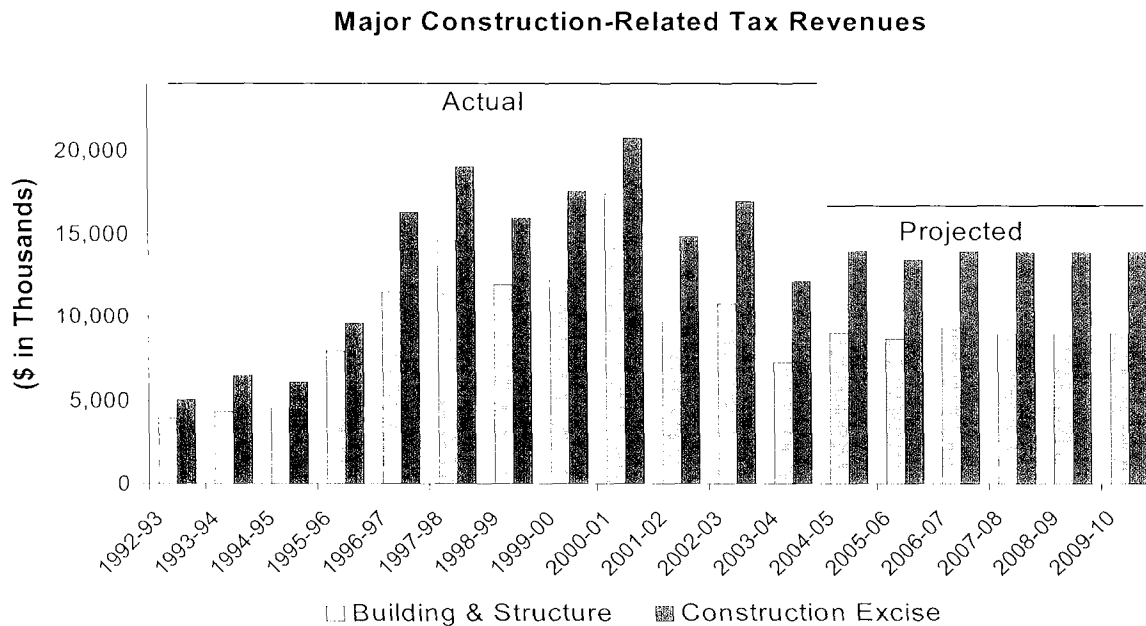
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**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES (CONT'D.)**

**Fees and Charges (Cont'd.)**

Building and Structure Construction Tax (Cont'd.)

The following graph compares the actual and projected revenues for both the Building and Structure Construction and the Construction Excise Taxes, by year.



**Transfers**

Transfers totaling \$536.2 million are the largest source of revenue in the 2006-2010 Adopted CIP primarily due to the inclusion of Transfers associated with the Airport Program (\$348.4 million). Other significant transfers are reflected in the following programs: Sanitary Sewer System (\$72.4 million), Water Pollution Control (\$48.8 million), Parks and Community Facilities Development (\$26.3 million), Water Utility System (\$14.1 million), Library (\$11.4 million), Parking (\$7.4 million), and Storm Sewer System (\$7.4 million).

The transfer amount in the 2006-2010 Adopted CIP is significantly lower (\$1.373 billion) than the amount included in the 2005-2009 Adopted CIP due almost entirely to a large drop in the Airport-related transfers (\$1.397 billion). As discussed in the Airport Capital Program section of this document, because the timing of the various Master Plan projects has been adjusted based on the expected demand for these facilities, the financing schedules have also been adjusted to occur over a more extended period of years. As discussed above, bond proceeds are the source of funding for these transfers from the Airport Fiscal Agent Fund to the Airport Revenue Bond Improvement Fund to support the majority of the Airport Master Plan projects.

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**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES (CONT'D.)**

**General Fund**

General Fund contributions to capital projects included in the Adopted CIP total \$32.3 million. Reflecting the funding problems facing the General Fund in recent, this category is down (\$7.1 million or 18%) from the level contained in the 2005-2009 Adopted CIP. These funds are used to support the following capital programs: Traffic (\$8.4 million) for sidewalk repairs and Congestion Management Program dues and rebudgeted projects; Communications (\$7.0 million) for rebudgeted projects and equipment replacement; Fire (\$9.6 million) for fire apparatus and rebudgeted projects; Park and Community Facilities Development (\$3.1 million) for park and community facility improvements; and Municipal Improvements (\$4.2 million) for rebudgeted projects, methane monitoring, HP Pavilion repairs, fuel tank monitoring, and miscellaneous repairs.

**Interest Income**

The 2006-2010 Adopted CIP includes \$26.4 million from interest income. This is a drop of approximately 19.0% from the estimate included in the 2005-2009 Adopted CIP. The overall decrease from the prior year primarily reflects projections for lower fund balances to be available to generate this income during the coming five-year period.

**Other Revenue**

The Other Revenue category totals \$190.9 million, an increase of \$34.5 million from the 2005-2009 Adopted CIP. The majority of this funding (\$120.5 million) is associated with Airport revenues, such as Passenger Facility Charges (PFCs) and tenant improvement payments. In addition, the Service Yards Capital Program (\$14.2 million), Library Capital Program (\$3.0 million) and Public Safety Capital Program (\$3.0 million) includes proceeds from the sale of surplus property. Major changes in this category result primarily from increases in the Service Yards Capital Program (\$19.2 million) due in part to increases in Commercial Paper proceeds and increases in the Airport Capital Program (\$10.0 million) reflecting changes in PFCs.

The Other Revenue category also includes developer contributions, which total \$21.1 million. The Traffic Capital Program includes developer contributions of \$9.6 million, of which \$6.4 million is associated with providing improvements at Bailey Avenue and Route 101 in the North Coyote Valley. This contribution was increased by \$1.4 million from the 2005-2009 Adopted CIP based on changes in the scope of work. The Developer Assisted Capital Projects Program includes \$7.8 million to support underground utility activities, an increase of \$2.0 million compared to the 2005-2009 Adopted CIP. The Parks Capital Program also includes Developer Contributions of \$2.5 million associated with the Calpine Open Space agreement. Lastly, the Public Safety Capital Program includes developer contributions of \$1.3 million.